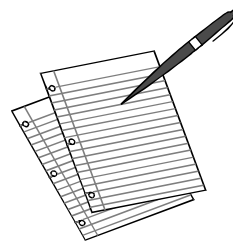
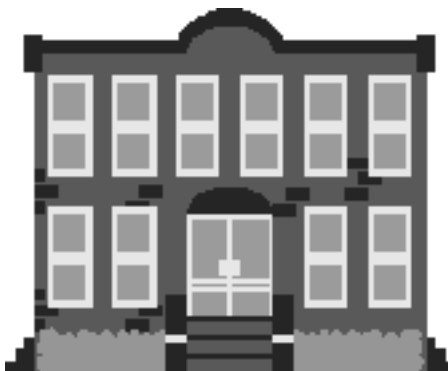


## Segregated Funds



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## Local Government Property Insurance Fund (Fund)

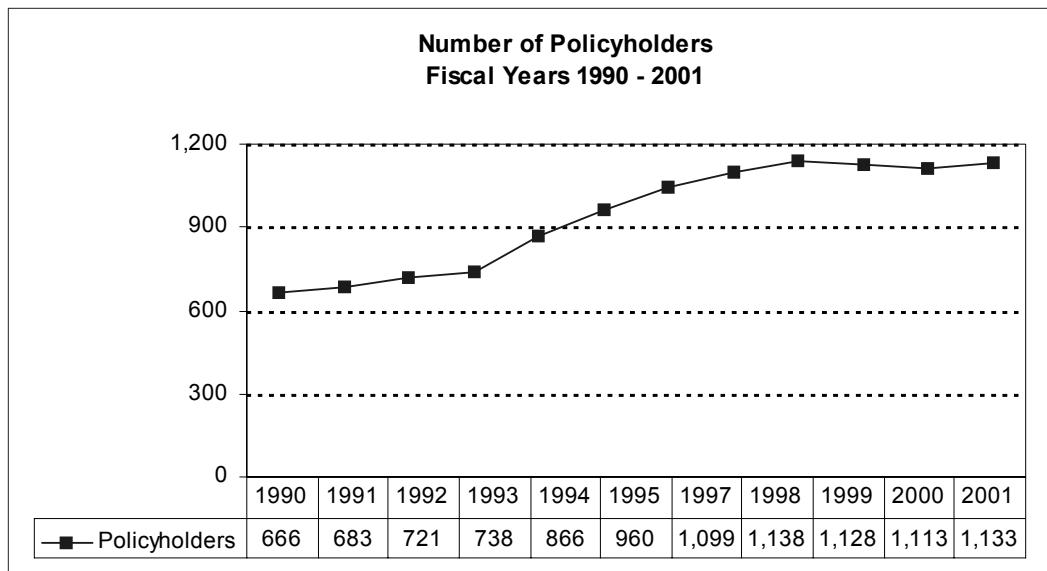
The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders.

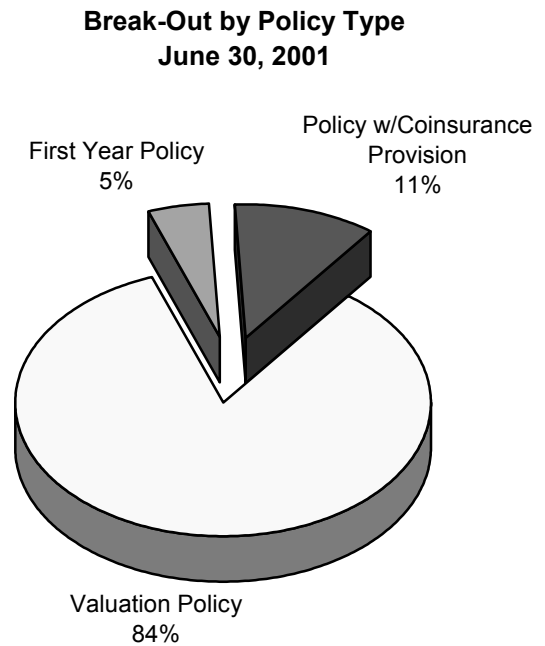
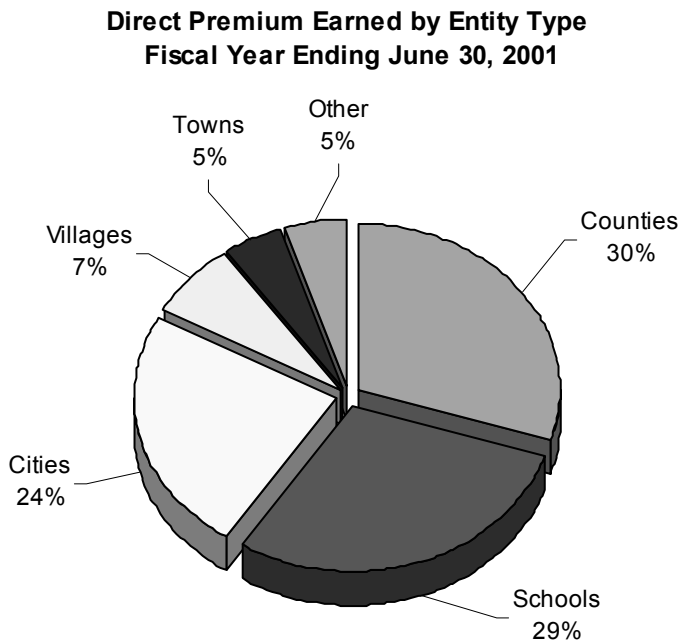
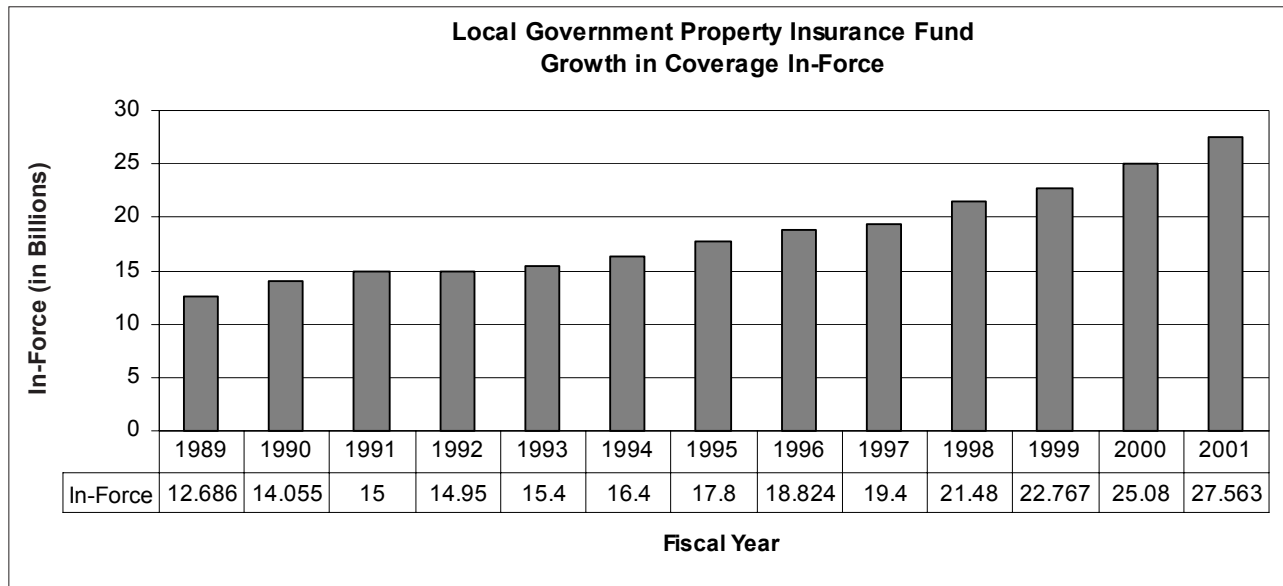
As of June 30, 2001, the Fund insured 1,133 policyholders: 71 counties, 296 schools, 151 cities, 281 towns, 221 villages, and 113 miscellaneous (libraries, etc.). The number of policyholders increased by 20 (1.8%) since the previous fiscal year-end. Two graphs are included that reflect growth in the Fund's policyholder base and growth in its insurance coverage in force. The total amount of insurance in force as of June 30, 2001, was \$27.6 billion, up from \$25.1 billion as of the previous fiscal year-end.

Two pie charts reflecting premium earned distribution by type of policyholder and the breakdown by type of policy purchased are also attached. The majority of the Fund's insureds are using the valuation project service that began in 1988. This unique method of valuing buildings, contents, property in the open, and contractor's equipment was developed to promote equity in premiums and the proper reporting of values. Participants not only have broader coverages, but enjoy the benefits of automatic computer-generated statements of values.

During 1998 the Fund modified its valuation policy form coverage with respect to replacement coverage for fine arts, collectible items, and museum collections. These changes were necessary to permit the Fund to better assess its exposure relative to fine arts, collectible items, and museum collections which can have substantial replacement costs. Effective January 1, 1999, the most the Fund will pay for any one item is \$50,000. If, however, the insured desires higher amounts of coverage on a per item basis, it must either schedule the individual property and provide an estimated replacement value, or purchase an endorsement that offers coverage subject to per item, per exhibit, and per occurrence limitations.

Rates over the past five years have remained stable, however, due to an anticipated net loss and changes in the Fund's reinsurance program's retention levels, the Fund implemented a 24% increase in building and content rates effective July 1, 2001. The Fund's surplus actually decreased approximately \$2.7 million over the June 30, 2000, level, while its total insurance in force increased \$2.5 billion over the same time period. The Fund's insurance in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. Claims costs coupled with higher self-insured Fund reinsurance retention levels and higher reinsurance premium will continue to be a factor in the rate-setting analysis. Fund management will continue to monitor insurance in force and claims trends when evaluating the Fund's rating structure. As of year-end 2001, the Fund was in the process of engaging an independent actuarial consulting firm to assist it with ratings issues.





*Wisconsin Insurance Report Business of 2001*  
*Segregated Funds, Local Government Property Insurance Fund*

Following are financial statements—balance sheet and income statements—for the Fund for the fiscal year ending June 30, 2001.

| <b>Local Government<br/>Property Insurance Fund<br/>Balance Sheet—Statutory Basis<br/>June 30, 2001</b> |                            |
|---|----------------------------|
| <b>Assets</b>   |                            |
| Bonds - Amortized Cost  | \$19,177,759               |
| Investment Fund   | 11,146,000                 |
| Cash at Treasury  | 25,178                     |
| Premiums Receivable   | 650,286                    |
| Reinsurance Recoverable   | 1,854,871                  |
| Interest Receivable   | <u>436,306</u>             |
| <b>Total Assets</b>   | <u><u>\$33,290,400</u></u> |
| <b>Liabilities and Surplus</b>  |                            |
| <b>Liabilities</b>  |                            |
| Net Loss Reserves   | \$ 8,163,639               |
| Loss Adjustment   |                            |
| Expenses Payable  | 174,965                    |
| Net Unearned Premiums   | 3,521,654                  |
| Other Expenses Payable  | <u>610,918</u>             |
| <b>Total Liabilities</b>  | \$ 12,471,176              |
| <b>Surplus</b>  |                            |
| Surplus - Beginning of Year   | 23,501,292                 |
| Net Income  | <u>(2,682,068)</u>         |
| <b>Surplus - End of Year</b>  | <u>20,819,224</u>          |
| <b>Total Liabilities and Surplus</b>  | <u><u>\$33,290,400</u></u> |

| <b>Local Government<br/>Property Insurance Fund<br/>Income Statement—Statutory Basis<br/>June 30, 2001</b> |                             |
|--|-----------------------------|
| <b>Premiums Earned</b>   |                             |
| Direct Premium Earned  | \$11,354,966                |
| Reinsurance Ceded  | <u>(2,349,941)</u>          |
| <b>Net Premium Earned</b>  | \$9,005,025                 |
| <b>Losses Incurred</b>   |                             |
| Direct Losses Incurred   | 14,198,447                  |
| Reinsurance Loss   |                             |
| Recoveries   | <u>(2,405,279)</u>          |
| <b>Net Losses Incurred</b>   | 11,793,168                  |
| <b>Loss Adjustment Expenses</b>  | 582,633                     |
| <b>Other Underwriting Expenses</b>   | <u>1,025,083</u>            |
| <b>Total Net Losses<br/>and Expenses</b>   | <u>13,400,884</u>           |
| <b>Underwriting Loss</b>   | (4,395,859)                 |
| <b>Investment &amp; Other Income</b>   |                             |
| Interest on Bonds  | 1,097,696                   |
| Investment Fund Earnings   | 663,442                     |
| Realized Capital Gain  | 55                          |
| Other Income   | 1,775                       |
| Investment Expenses  | <u>(49,176)</u>             |
| <b>Net Investment Income</b>   | <u>1,713,792</u>            |
| <b>Net Loss Before Dividends</b>   | (2,682,067)                 |
| Dividends to Policyholders   | (0)                         |
| <b>Net Income</b>  | <u><u>\$(2,682,067)</u></u> |

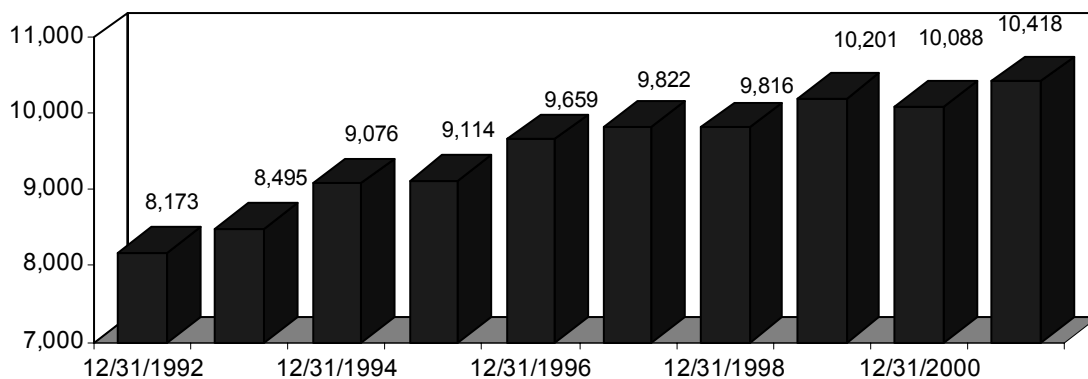
## Patients Compensation Fund (Fund)

The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Academy of Trial Lawyers, a member named by the State Bar Association, 2 members named by the State Medical Society of Wisconsin, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

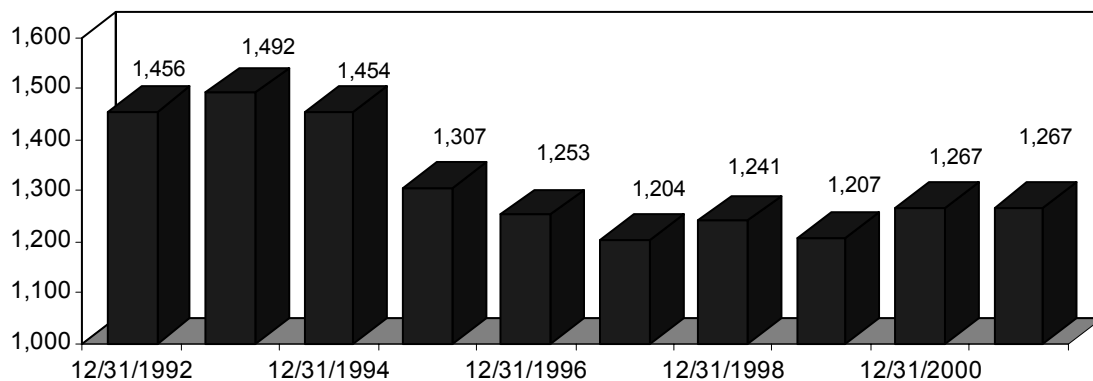
The Board is assisted by an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee, and a Peer Review Council. The Board and its committees meet quarterly.

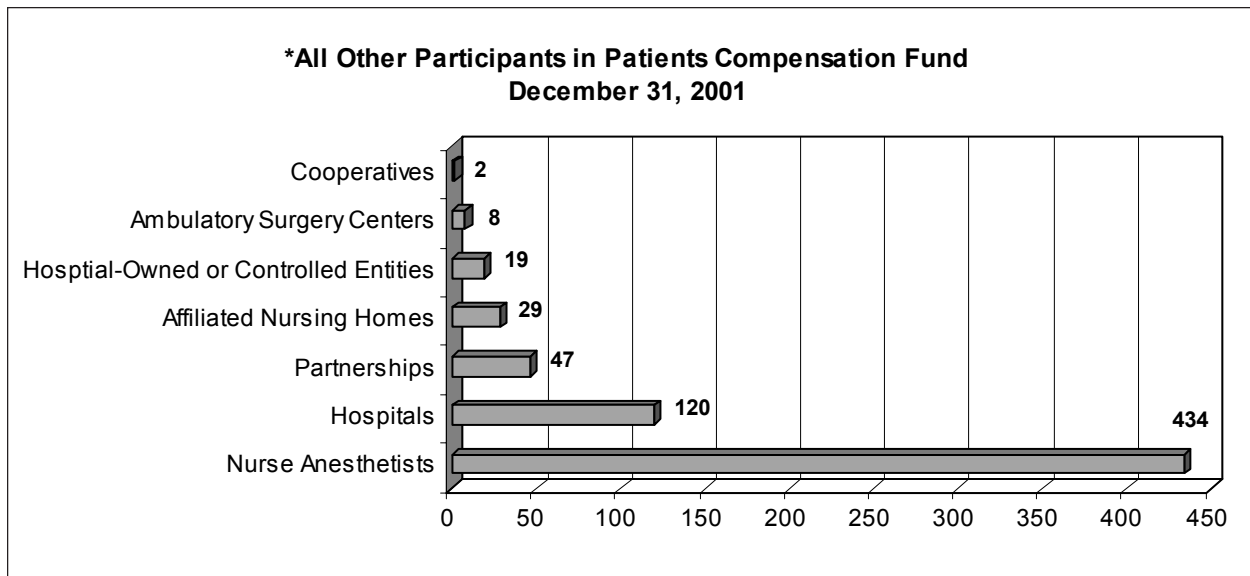
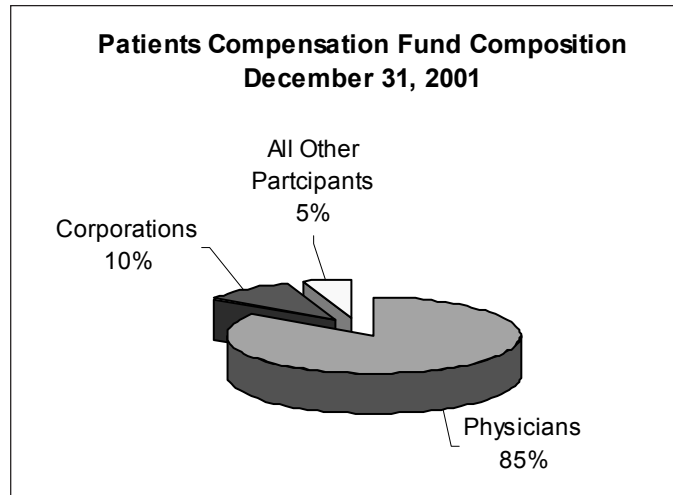
The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

**Physicians in Patients Compensation Fund  
1992-2001**



**Corporations in Patients Compensation Fund  
1992-2001**





As of December 31, 2001, the vast majority of Fund participants were physicians at 85% with corporations comprising another 10% and the remaining 5% comprised of various other participant types, as illustrated in the charts above. At year-end 2001, Fund participants totaled 12,344 comprised of 10,418 physicians, 1,267 corporations, 434 nurse anesthetists, 120 hospitals with 29 affiliated nursing homes, 47 partnerships, 19 hospital-owned or controlled entities, 8 ambulatory surgery centers, and 2 cooperatives.

From July 1, 1975, through December 31, 2001, 4,615 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 585, totaling \$507,692,824. Of the total number of claims in which the Fund has been named, 3,664 claims have been closed with no indemnity

payment. Of the remaining reported claims as of December 31, 2001, 32 cases carried aggregate case reserves of \$33,262,860.

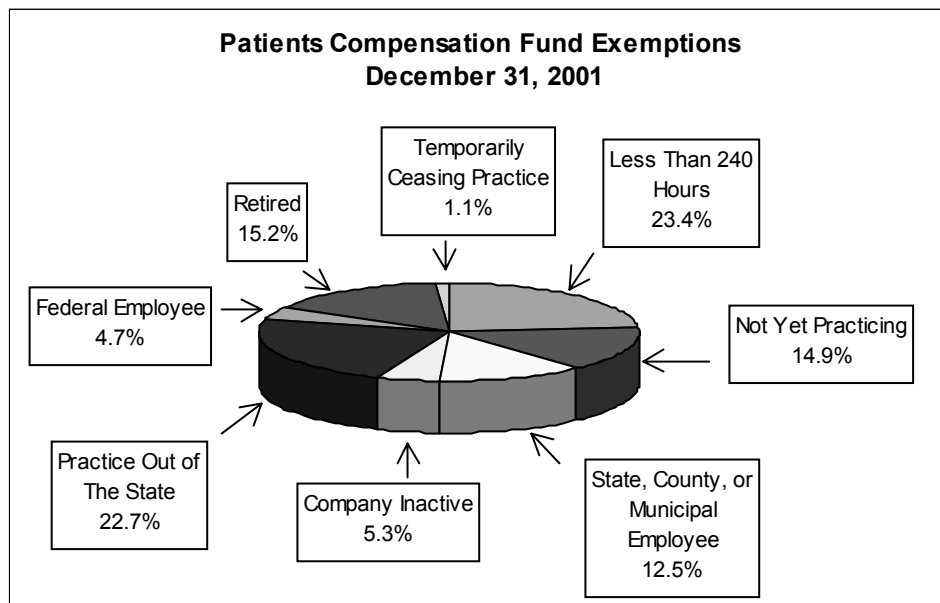
Changes in the Fund's statutory investment authority have had a positive impact on the Fund. Legislation enacted in April 1990, which permitted the Fund to invest in long-term financial instruments, has resulted in higher investment earnings. The Fund's actuaries have estimated that during the period October 1, 1990, to September 30, 2001, investment earnings on the long-term portfolio were \$93.5 million greater than what would have been earned had these assets remained in the short-term account.

During 1999, the Investment Committee, with the assistance of an outside investment consultant, developed new investment guidelines. The new investment

guidelines provide for investment in equities to maximize investment return. These new investment guidelines were implemented in 2000 in coordination with the State of Wisconsin Investment Board.

**Major Activities for 2001:**

- Fund administration, in conjunction with legal counsel, closely monitored claims filed which challenge the constitutionality of the noneconomic and wrongful death caps. This is an ongoing issue and will be closely monitored.
- Fund administration closely monitored the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of these outside counsel to ensure that while the Fund receives the necessary representation, that legal fees are controlled.
- The Fund is in the process of implementing late filing fees which will be charged to primary carriers when certificates are not received timely in accordance with s. Ins 17.28 (5), Wis. Adm. Code.
- Extensive work continued during 2001 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for enforcement action by that board. As of December 31, 2001, 9,159 providers claimed an exemption from the Fund. The various basis for the exemptions are illustrated in the chart below:





*Wisconsin Insurance Report Business of 2001*  
*Segregated Funds, Patients Compensation Fund*

Following are financial statements—balance sheet and income statement—for the Fund for the fiscal year ending June 30, 2001. The figures reported are on an unaudited basis.

| <b>Patients Compensation Fund</b>         |                             |
|---|-----------------------------|
| <b>Balance Sheet</b>                      |                             |
| <b>June 30, 2001</b>                      |                             |
| <b>Admitted Assets</b>                    |                             |
| Cash                                      | \$ 47,839                   |
| State Investment Fund Shares              | 7,903,291                   |
| Long-term Investments                     | 559,162,359                 |
| Bond Investment Income Receivable         | 8,954,422                   |
| Short-term Interest Receivable            | 44,991                      |
| Assessments Receivable                    | 368,401                     |
| Less: Allowance for Uncollectible         |                             |
| Accounts                                  | (966)                       |
| Prepaid Items                             | 5,995                       |
| Office Furniture and Equipment            | 24,115                      |
| Other Receivables                         | <u>13,782</u>               |
| <b>Total Admitted Assets</b>              | <u><u>\$576,524,228</u></u> |
| <b>Liabilities</b>                        |                             |
| Loss Liabilities                          |                             |
| Liability for Incurred But                |                             |
| Not Reported Losses                       | \$701,500,418               |
| Liability for Reported Losses             | 52,516,954                  |
| Liability for Loss Adjustment             |                             |
| Expense                                   | <u>32,436,465</u>           |
| Estimated Unpaid Loss Liabilities         | 786,453,837                 |
| Amount Representing Interest              | <u>(240,654,874)</u>        |
| Discounted Loss Liabilities               | 545,798,963                 |
| Liabilities for Future                    |                             |
| Medical Expenses                          | <u>490,725</u>              |
| <b>Total Loss Liabilities</b>             | <u><u>546,289,688</u></u>   |
| <b>Other Liabilities:</b>                 |                             |
| Contributions Being Held                  | 1,200,000                   |
| Assessments Received in Advance           | 293,333                     |
| Provider Refunds Payable                  | 183,123                     |
| Medical Mediation Panels Payable          | 4,304                       |
| Gen & Adm Expense Payable                 | 68,052                      |
| Compensated Absences                      | <u>25,179</u>               |
| <b>Total Liabilities</b>                  | <u><u>548,063,679</u></u>   |
| <b>Fund Surplus</b>                       | <u><u>28,460,549</u></u>    |
| <b>Total Liabilities and Fund Surplus</b> | <u><u>\$576,524,228</u></u> |

| <b>Patients Compensation Fund</b>                      |                             |
|--|-----------------------------|
| <b>Statement of Income and Changes in Fund Surplus</b> |                             |
| <b>June 30, 2001</b>                                   |                             |
| <b>Underwriting Income:</b>                            |                             |
| Assessments Written (Net)                              | \$ 36,806,961               |
| <b>Less Underwriting Expenses:</b>                     |                             |
| Net Losses Paid  | 37,322,931                  |
| Interest on Loss Payments                              | 2,854,493                   |
| Loss Adjustment Expenses Paid                          | 2,800,086                   |
| Risk Management Expenses                               | 55,055                      |
| Medical Expense Paid                                   | 159,112                     |
| Change in Liability for Incurred                       |                             |
| But Not Reported Losses                                | 30,683,632                  |
| Change in Liability for Reported                       |                             |
| Losses   | 6,053,669                   |
| Change in Liability for Loss                           |                             |
| Adjustment Expense                                     | 1,054,925                   |
| Change in Amount Representing                          |                             |
| Interest   | (5,575,128)                 |
| Change in Liability for                                |                             |
| Future Medical Expenses                                | <u>17,189</u>               |
| <b>Total Underwriting Expenses</b>                     | 75,425,964                  |
| Net Underwriting Gain (Loss)                           | (38,619,003)                |
| <b>Investment &amp; Other Income</b>                   |                             |
| Investment Income                                      | 33,663,458                  |
| Unrealized gain (adjustment to market value)           | 5,171,577                   |
| Change in Bond Premium (Discount)                      | 1,387,387                   |
| Assessment Interest Income                             | 362,005                     |
| Administrative Fee Income                              | 46,268                      |
| Surcharge Income                                       | 0                           |
| Other Income   | 2,515                       |
| Depreciation Expense                                   | (6,040)                     |
| Loss on Disposal of Fixed Assets                       | 0                           |
| Less General and Administrative Expense                | <u>(777,328)</u>            |
| <b>Net Gain (Loss)</b>                                 | <u><u>\$ 39,849,478</u></u> |
| <b>Fund Balance, Beginning of Year</b>                 | \$ 27,229,710               |
| Net Gain (Loss)  | 1,230,838                   |
| Other Adjustments                                      | <u>0</u>                    |
| <b>Fund Surplus, End of Year</b>                       | <u><u>\$ 28,460,549</u></u> |

### State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund is supervised by the Commissioner.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of surplus to assets between 7% and 10%. In 2001, a

distribution of \$3.9 million was paid to policyholders in the form of dividends.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low .1%. As of December 31, 2001, there were 30,407 policies in force.

#### State Life Insurance Fund Balance Sheet December 31, 2001

|  |                            |
|--|----------------------------|
| <b>Assets</b>                          |                            |
| Bonds                                  | \$65,082,910               |
| Policy Loans                           | 3,814,506                  |
| Cash and Bank Deposits                 | 291,196                    |
| State Investment Fund                  | 4,894,000                  |
| Premiums Deferred & Uncollected        | 109,933                    |
| Investment Income Due & Accrued        | <u>1,356,599</u>           |
| <b>Total Assets</b>                    | <b><u>\$75,549,144</u></b> |
| <b>Liabilities and Surplus</b>         |                            |
| Reserves for Life Policies & Contracts | \$51,931,867               |
| Interest Maintenance Reserve           | 585,850                    |
| Policy Claims                          | 178,049                    |
| Dividends Due and Unpaid (2001)        | 18,056                     |
| Dividends - Provision for 2002         | 3,917,124                  |
| Deposit Type Contracts                 | 11,891,241                 |
| Unclaimed Property                     | 56,902                     |
| Taxes, Licenses, Fees Accrued          | 447                        |
| Suspense and CANC Drafts               | 76,903                     |
| Expenses Due & Accrued                 | 84,440                     |
| Back Up Withholding                    | 560                        |
| Premiums Received in Advance           | 34,884                     |
| Asset Valuation Reserve                | <u>382,925</u>             |
| <b>Total Liabilities</b>               | <b>\$69,159,248</b>        |
| Surplus                                | <u>6,389,896</u>           |
| <b>Total Liabilities and Surplus</b>   | <b><u>\$75,549,144</u></b> |

#### State Life Insurance Fund Income Statement December 31, 2001

|  |                            |
|--|----------------------------|
| <b>Income</b>                                |                            |
| Premiums                                     | \$2,458,132                |
| Investment Income                            | 5,011,294                  |
| Miscellaneous Income                         | 1,083                      |
| Amortization of Interest Maintenance Reserve | <u>77,626</u>              |
| <b>Total Income</b>                          | <b>\$7,548,135</b>         |
| <b>Expenses</b>                              |                            |
| Death Benefits                               | 758,868                    |
| Matured Endowments                           | 282,500                    |
| Other Policy Benefits                        | 844,666                    |
| Increase in Reserve                          | 1,532,792                  |
| General Operating Expense                    | <u>629,221</u>             |
| <b>Expenses before Dividends</b>             | <b><u>4,048,047</u></b>    |
| Net Gain before Dividends                    | <u>3,500,088</u>           |
| Dividends to Policyholders                   | <u>3,898,141</u>           |
| <b>Net Gain (Loss) from Operations</b>       | <b><u>\$ (398,053)</u></b> |